

Analyst call: Q1 2024 financial results – conference call transcript Thursday, May 23, 2024

Klára Šípová. Investor Relations:

Good morning, ladies and gentlemen.

I hope that you can hear me. I would like to welcome you at the analyst conference call in connection with publication of Q1 2024 financial results of Colt CZ Group, which were published this morning. Also together with the regulatory announcement, we published also the invitation for our upcoming general meeting and also announcement of the increase of existing bond issue. Today's speakers on the call are Mr. Jan Drahota, the CEO of the company.

Good morning.

Together with him, Mr. Jan Zajíc, the CEO of Česká zbrojovka Uherský Brod.

Good morning.

First time with us, new member of our family, Mr. Radek Musil, the CEO of Sellier & Bellot.

Good morning.

And Jana Matoušková, Head of Group Finance.

Good morning.

You should have the presentation in front of you and is also available for download on our website. I would like to ask you to stay muted during the presentation. The call is being recorded and now I would like to hand over to Jan Drahota to start the presentation.

Jan Drahota, CEO Colt CZ Group

Thank you and good morning to everyone. Again, Before I start with the presentation, I would like to also welcome Sean Congdon who is CEO of Code Canada who is with us today in Prague.

So welcome, Sean. So of course, if you have any questions about Canadian business, you know Sean is also available. So, I just thought that it will be also interesting for Sean to, to see how our investors in Europe are speaking to us and what the questions are.

So, let's jump into, into the presentation. So Q1 of this year, I will first start to maybe let me first say a few sentences and then we go to figures.

Q1 of this year was I, would say basically confirmed our view on the market this year. So, we feel that and we are relatively bullish on the market.

So we feel that the markets are more favorable than what we felt at this time of last year.

And, and because of that, we are able to confirm the original guidance which we gave plus -2

months ago when we released 2023 financial results. So that's the first message. Second message is that even though we grew substantially in terms of revenues, the profitability went down versus last year, which we feel it's only a bump on the road or one-off effect because we already know and we feel very confident about H1 performance and the rest of the year performance.

Just for you, your information, in April we basically doubled the EBITDA for the year.

So, I think that even a recent development is proving us that what we feel and how we feel about the business this year is correct. Now let's go to the individual figures.

Revenues for Q1 3.66 billion CZK or around 21.7% up. Adjusted EBITDA 488.4 CZK which is around 28% down and net profit same direction, so down around 47% to 359 million CZK. And same goes for EPS. Once again, you know this is first quarter performance and we stay confident that we that throughout the year we'll be growing and we're growing quite substantially on organic basis as well. Important news, even though it was not in the first quarter of this year, it was actually last week, but we did finalize and close the Sellier Bellot acquisitions. If you go to next slide, this is the slide gives us a bit more detail about where we are in terms of in terms of revenues breakdown by geography. So you see that the biggest market for us stays the US so which represents around 48% follow of the sales. Then it's followed by Czech Republic, Canada to our home markets, Europe and Asia and the rest of the world. So quite diversified sales as, as they were, as they were as maybe even more diversified and more, more, more let's say equally split than before breakdown by segments.

You see that the trend continues what we announce or what we indicated that the sales to MLE customers are growing this year, they represent slightly less than half of the sales. So significant increase. And one of the reasons why the share of sales to military are higher is also that we for the first time including swissAA. SwissAA didn't have a strong first quarter, but they had some sales and their sales are only to MLE customers.

If you go to next slide, this is more about more granularities of our sales.

So, so maybe first comment is there's a headline of the slide is that in terms of sales, the first quarter of this year was the strongest ever first quarter for us.

So that's the first news, 2nd news breakdown by products.

You see that we are that the share of ammunition grew compared to last year, obviously because we started to include swissAA.

Now it, it has impact on sales, but it didn't have or yet it actually slightly negative impact on EBITDA because we are ramping up the production there.

And, then basically we were still struggling with some components and the second quarter of the year is already better also in Switzerland.

So that's for split by different product. But again of units sold, if you speak about firearms only then you'll see that it's slightly down, but up in long guns, which once again confirms that we are doing well on the military programs. And that's I think that the most important part of the most similar comments for this slide.

If we go next, next one, I already did discuss that the profitability went down and now it would be also good to say why there were several reasons for that. First of all, we decided before end of last year.

So we started to be more aggressive on the US commercial market in Q4 of last year, maybe end of Q3 and the beginning of Q4 and Q1 of this year those programs already expired.

One of the reasons is that we expect new products and we wanted to make sure that we have when we cleared the channels for the new products that is the first reason.

So marketing investments, so marketing costs.

Second reason for slightly for lower profitability is we had some technical issues with some of SKU's of Colt which made us not to be able to ship those products and obviously the cost stay in the business.

But those issues are already resolved. So these are the most important topics. And then once again revenues were increased but IT didn't have a positive effect on EBITDA.

So that's the most important comments for profitability impact.

If you go to next slide which is giving you Capex, I think that here we are only confirming that we expect the Capex to be around 5% of revenues for the year.

So there is nothing to be described, Capex is more even less than because we also did something in Switzerland in relation to the automation of some processes in the production of ammunition.

If we go to next slide, I think in a message which is actually not I think highlighted here so much is that by the end of this year we expect the net debt to be well below three times of EBITDA.

So you see that if we exclude the one off payment, the pre-payment for the S&B acquisition, the net debt is around twice, two times EBITDA.

But once again this is including the €120 million dollars which you paid as advance payment for the for the S&B acquisition and we don't include obviously any S&B profitability there.

So at the end of the year, I will reiterate myself, we expect the net debt to EBITDA be well below and I mean well below 3, 3 times.

We go to next slide guidance.

That's I think important message because it will maybe answer as well some of the potential questions which you might have is that we you on this slide, you have three different charts or four actually I can't call anymore. So one of them is last year H1, second one is H1 of this year without S&B and then you have the different calculations including S&B on pro forma basis or for the six weeks which we which we will include it.

So first message on organic basis only, we expect the business to be at around 8.4 to 8.6 billion CZK revenues 1.45 to 1.6 in EBITDA. So basically, we'll be we expect to be up both in the revenues and EBITDA.

If you do your math, you will see that from what you of what we are showing here, we expect the EBITDA for the Q2 already to be in excess of 20%.

So once again, this is normalization of the EBITDA margin which was for us at unacceptable level in Q1 below 20%.

So that's the first message which you have here, second message and just that's the third, third graph from the left side is the how, the how, what is our guidance for the H1 including six weeks of S&B, because as I said, we did finalize the acquisition on the 16th of May.

So since 16th of May, the PNL of S&B, we will be fully reflected in our financial results. And you

see that there we say that revenue should be 9.0 to 9.2 billion CZK and EBITDA 1.65 to 1.8 billion CZK. So that's the second message. So that's basically for you to know what, what you should be expecting from the financial results, you know what we should be delivering.

And then there is a last graph which is I think it's a good illustration for you to understand what the business is altogether. And this is the pro forma or sum of parts, the performance in H1 of S&B and performance of H1 of Colt CZ.

You see that it's around 12 bn CZK of revenues and around 2.6 to 2.8 billion of EBITDA.

So, so significant increase of the size of the business, yeah.

So if you go to next slide, we have here once again, we have here once again the split which contains first of all full year guidance result.

S&B and I already did say that that we expect to we confirm the guidance which we gave when we released the 2023 financial results.

So we expect to grow organically this year.

That's important message.

Then you have the two guidances which are one which will be the consolidated figures together with S&B and you'll see that we expect on consolidated figures.

That's the basically central scenario if I put it this way because we will be showing those figures is that we say that we expect the business to be in terms of revenues around 20 to 22 billion CZK and in terms of EBITDA 4.3 to 4.7 billion CZK.

So significant increase of 30 to 50% in both KPIs.

And then you have the pro forma for the whole year for the business, for the two businesses together, if they were as if they were together from the 1st of January 23 to 25 in revenues and 5.2 to 5.6 in EBITDA.

So, you see once again 60 to 70 to 80% increase year on year versus 2023.

So significant impact of the acquisition and significant creative impact as well on, on, on margin once again for us.

And this is, I would like to stress that for us, we view the Q1 profitability drop as, as something which is one of thing and is not acceptable for us to, to, to, to, to be and, and we and we see importantly we see that the, the H1 will already correct it and the EBITDA will be already above 20% for the Q2.

So that's my comment here.

If you go to next slide, I already did say that or I had mentioned that that we finalized the acquisition of S&B in last week.

I would say that what is important there are here you have a repetition of the transaction parameters.

So, enterprise value of around \$826,000,000 purchase price consisted of net purchase price

which is net of debt which was at the balance sheet of S&B is around several \$1,000,000 and consists of cash payment and consideration in the in the form of shares.

I think that the critical message is here is the point number 5 is lock box as of 31st of December 2023. So it basically as of consumption of the transaction, the parameters are slightly better because S&B business was profitable for the 1st and substantially profitable.

You saw it in the previous slides.

So basically the profit and Cash flow generated by the business for the 1st 5 1/2 months of the year is ours as well.

So what we are saying is the is the other payments which are, which are the calculations which are based on the end of last year or end of last year financial statements which is also mentioned here is the audited financial statements confirmed what we agreed together with CBC to would be the transactions transaction structure.

And now I think that it's good to give the word to Radek to tell us a little bit more about S&B because that's the first time he with us.

So Radek, floor is yours.

Radek Musil, CEO Sellier & Bellot

OK, let me introduce S&B shortly.

We are producing small caliber ammunition and only small caliber ammunition, nothing else.

Well, we are almost 200 hundred years old and I am here with the company as the CEO for 25 years.

Well, our HQ and entire production is located in Vlašim, which is around something like 50 kilometers from Prague and we have 1633 employees.

Well, what is unique for us that except small caliber ammunition. we produce all machines for the ammunition production, but mostly for us because we expand, we expand our production every year.

We, our philosophy, our strategy is that all our production capacities, we are completely busy.

So and that's the strategy worked for last 20 years.

So our growth limit is the machines and the production capacity we have.

Well, our biggest market is European Union, mostly the NATO states in European Union, then United States, Czech Republic, Czech Republic and then other countries.

The law enforcement and military business is growing step by step year by year mainly the mainly the NATO state of European Union.

We have we have very good position in law enforcement market.

We are the I would say that we are leader on that market and we are growing in military sector and there is a certain potential in military sector.

Next page please.

I said we are doing just only at the small caliber ammunition. Our core business is pistol and revolver ammo plus rifle ammunition. The rest is the shotgun, rim fire and some components So we are we are doing the others but we don't have big ambition about that. So the pistol revolver ammunition, it makes something like 88% of our 88% of our revenue.

As you can see the number of calibers for hundreds is 42, which is quite large for the ammunition production and 21 for 21 for pistol revolver.

Basically it covers all, all major, all portfolio of the calibers available on the on the market.

And then the bullet tap probably it says nothing to you at the moment.

But if you go, if you dig deep in information, you'll find out that we are covering, we are covering all necessary, all necessary projectiles for the law enforcement and military.

And also we have some few patents regarding the special projectiles. Well, that's the shortly about S&B.

Thank you.

Klára Šípová, Investor Relations

Thank you very much, gentlemen. Thank you very much for your presentation.

And ladies and gentlemen, we are now moving to the Q&A session.

If you would like to ask questions, please raise your hand in Teams application or speak directly to the phone.

And the first question is coming from Atinc Ozkan from Wood & Company.

Atinc Ozkan from Wood & Company

So I have a couple of questions.

First of all, let me thank you again for the presentation and for the chance.

The first one is when I'm looking into your guidance and taking into account the Proforma guidance.

The implied EBITDA margin is slightly above 22%.

But when we look to S&B historically EBITDA margins, that's significantly above that.

I think in 2023 that was well above 30%.

So does that mean in S&B there is a margin contraction in 2024?

And if yes, what are the main drivers?

The second one is speaking about again S&B operating at full capacity if I am not mistaken.

Do you see any ramp up trend in your Capex over sales trends, higher than the usual 5% once this once S&B acquisition is completed?

And the third one, I have read some recent articles mentioning significant price inflation in main components of ammunition such as Nitro cellulose, propellants and primers.

Is there any risk of cost inflation or for your ammunition business, do you have observe anything like that currently?

Thank you.

Radek Musil, CEO of S&B

OK, Hopefully I will remember all the questions well.

The profitability, the profitability if you look on the Q1 23 and Q1 24 on our EBITDA margin, I must say that in the first quarter 23, there was impacted by a revaluation of the value of our inventories because there was the change of price of the raw material and it added up something like 164,000,000 CZK.

So without that effect, it was those 344 million CZK.

So in fact, the, the profitability Q1 2023/2024 grows without this effect.

That's the first the capacity at the beginning of the last year we opened new production hall size of 10,000 meters square.

And because we have certain kind of the safety restriction and hygiene restriction, it's not that easy to make a new production hall. So we did it as big as possible at the site we located.

So now we have certain potential for the capacity growth which we are step by step doing also reflecting the demand.

Well, the propellant for this year is fully secure and I might agree is the issue, it's issue in the world that the shortage or the shortage of the propellant and nitrocellulose. Well for the following year if we have the same volume of production like 24, it would be fine.

But probably we will need something more and we are working hard on that.

We expect that situation in 2026 will stabilize because we followed the capacity increase of the nitrocellulose and propellant producers.

So 2026 probably the market should stabilize and we should have it enough propellant for everything we need.

Atinc Ozkan

Very useful.

Thank you.

Klára Šípová

Ladies and gentlemen, if you would like to ask questions, please raise your hand in Team's application or speak directly to the phone.

And the next question is coming from J&T Bank from Pavel Ryska.

Pavel, please go ahead.

Pavel Ryska, J&T Banka

Again, I will directly hop on the first question, maybe I didn't catch it because I wasn't here the first few minutes, but the increase in revenues was quite swift in the first quarter.

However, you stated that the number of arms sold actually decreased slightly.

So I want to ask how was it achieved with the such a big leap in revenues when the number of arms sold dropped? I can understand that foreign exchange was favorable this quarter for you also there was the effect of Swiss Ammo as I understand. But, can it really explain the whole, let's say mismatch?

Jan Drahota

I mean you saw that there was I think the best answer is that you saw that there was significant increase of sales to MLE customers. So the products for MLE customers tend to be more expensive because of nature of the product. So I think that there would be one more explanation which I could give you.

So that's I would think that one more, let's say part of the of the overall equitation.

Pavel Ryska, J&T Banka

So can it be said that let's say the same unit of arms sold to an MLE customer is more pricey than the same units sold on the commercial market?

Jan Drahota

I mean, when we speak about pieces, it's a bit misleading because when I speak about piece of long gun, it can be brand, it can be brand to army or it can be rimfire rifle and brand to army will cost 3,4,5 times over price of the rimfire rifle.

Yeah, that's important to say.

So because the other split is only long guns and short guns, then it's a bit, it doesn't give you 100% of flavor why it is.

And once again, in the long guns, you have the military rifles and for BREN C8 and you also have in the long guns rimfire rifles which are selling for quarter - 30% of the price of the of the military rifle.

So I think it's one of the reasons why it is OK.

So this this long term shift that you want to make in favor of MLE customers should also bring a higher average selling price of the arms sold.

If I get it right, you know, the, the problem is averages is that you it also depends, you know, if you weigh in 500,000 pieces pistol tender for Army it might change the change the average as well.

So, you know, on this one, this is not this is not KPI, which you are measuring correctly speaking, you know, because this is super, super sensitive on the on the concrete product, you know, polymer frame pistol versus O2.

It's three times Shadow 2 would be three times more expensive.

And it's short gun. All of them, both of them are short guns.

So it's it would be misleading, but a true phase that the ambition is to do and our ambition is to have the maybe I will rephrase it a bit differently.

When you say that ambition to grow in MLE, I think that we want to grow on both segments, but we want to be balanced 50:50 between the two segments. Obviously, we don't manage it the way that we refuse to sell to commercial markets to grow on the military market.

We want to grow on both markets simultaneously and which we believe give us stability versus the market movements if there is drop on the on the commercial market or if there is, if there are contracts which are not on the military market.

So I think that's the logic and going forward, I wouldn't or maybe good answer would be that, yes, if you ask me about my ambition, then our ambition should be to increase average selling price of our product because we sell our products.

I think that our products are the products which provide one of the biggest value to customers because you buy a product which lasts kind of forever.

So I think that we should, our ambition should be to make our products more innovative and desirable, you know, in the customers to be able to charge more money for them.

So that's an ambition.

So and maybe it could be, you know, it could be actually future KPI.

We have not done it yet in order to make sure that we are able to really make our products more sexy and desirable because for us, and we know that already, we are not in the game to compete by price because we are, we are in the game to produce products which are desirable by the customers and we, they are willing to pay the right price.

We, we are not here to fight the raise to the button and we will not win the raise to the button because there is always somebody cheaper.

And we don't want to win the raise because it's nothing which we which we want to take part in.

Pavel Ryska

Does this 50/50 goal include or so S&B ballot or does it only concern arms?

Jan Drahota

Great question.

And once again I think the looks really totally same that he doesn't manage the split.

He goes after opportunities and what it makes sense of financially for the business, you know where he generates the biggest margin and the biggest margin in long run.

So for us we'll be always consolidating figures and we can get overall spec for the group and once again, this is kind of a guidance which we have in our heads to make sure that we take care of the two segments.

If I put it two big markets, you know, with enough care if I put it this way, but it's not something which is set in stone.

If it's not 50/50, we are not there.

It's really fluid and we have to make sure that we are growing on both segments of the market.

OK.

I don't know whether you want to add something because question was partially for you.

Radek Musil, CEO Seller & Bellot

Yes, the, the definitely there is a potential of military law enforcement, but I'm far from the define what's the real target 50% etcetera for us is the target to make the list of the opportunities we have another minute to achieve it.

And let's see, let's see how quickly, how quickly we can get it.

But as I said, in law enforcement there is not many opportunities because we are, we are taking most of them and the military, it mostly depends on how the countries will wake up with their, with their military spending interacting on the Russian war.

Pavel Ryska, J&T Banka

My, my second question concerns your margins in, in the long run.

I'm not sure if you have provided a, let's say a, long term guidance for your margin after the consolidation of S&B.

So we know that S&B is now operating with higher margins than the legacy business of Colt CZ.

Do you have any number in your mind going forward And I'm not necessarily speaking about this year, I'm rather speaking about let's say next three years where you would like or where you expect your margins to, to lie on a consolidated basis altogether.

Jan Drahota, CEO Colt CZ

We will not tell you our expectations because there will be kind of a guidance already.

But what I can tell you that if I tell you my preference, you know my likeness.

So what I would like to have, I think that our ambition, you know, in our mindset is that we should not that we want to grow.

So obviously it's more difficult to grow margin from 30% to 50% than from 20 to 30.

It's how it is, but we have not done yet our group exercise on where we want to be in terms of margins.

You know that for firearms, when we speak about firearms strictly, we believe that 20% is the minimum margin acceptable in the long run for the business.

So if it's higher, it's definitely desirable.

But for us the 20% is something which we consider as a minimum floor or as a floor kind of.

And we have not done any, let's say long term discussion how we feel it, it will be all together.

But maybe Radek will give his view on margins on the ammunition business.

Radek Musil, CEO Sellier & Bellot

But for firearms for US 20% is something which we consider, the business should not be going below basically because if it goes below that 20% in the mediums to long run, it will eat itself kind of that's, you know, that's our view for sure.

But what's the known is the margin in the US market, which really looks right.

And let's say last year, the second half of last year and it continue also the first continue now in the United States, the margins all over in the United States.

And for us is the certain buffer for, for the capacity for law enforcement and military contract. Because, when we get some nice contract we have just, we have the space buffer where to take the capacity. That's the American market. We are working for the quite long time, it's something like between 25 and 30% for past few past few years and we try to maximize it.

Pavel Ryska, J&T Banka

OK, thank you.

My, my final question which is rather technical I would say so.

So you confirmed your previously stated guidance from March and if I got it right in March, you were assuming that S&B would be consolidated on the 30th of June, let's say so, so like in the middle of the year it, it was consolidated rather earlier six weeks before.

But the guidance including S&B has not been changed.

So I would expect that it would it would maybe be a little higher given that S&B is already in the in the company on a consolidated basis.

So can you comment on this?

Jan Drahota, CEO Colt CZ

Because of this, we were really trying to give you a more ground level view on the things and we were showing the organic.

Guidance, so standalone business and then the pro forma and then the business for seven months.

So I think that Jana can come back to you, Jana Matoušková with whether there was more seasonality in S&B business for us to change this this slightly."

Jana Matoušková, Group Head of Finance

But once again, for us, what is important is the standalone guidance which we confirmed and the pro-forma.

And what is in between is what is whether there is higher profitability in that or that month which can influence the consolidated to consolidate it for the year.

But I think that it's important that this year and it will be anyway going forward, we will be reporting two segments.

So you will be able to track better where how we are doing on small arms and how we are doing on ammunition in terms of sale, in terms of margin and sales.

Klára Šípová, Investor Relations

Ladies and gentlemen, if you would like to ask questions, please raise your hand in Team's application.

And I see the next question is coming from Erste bank from Peter Bartek.

Peter, please go ahead.

Petr Bartek, Erste Banka

Good morning.

Thank you for taking my questions.

Actually, I wasn't in the course since the beginning, so I'm not sure if you commented on that already, but I would still ask you about the margins in the first quarter.

And there are comments in the presentation that you, you are providing discounts in the US.

So does that mean that margins in the US civilian market are now below 20%?

Would you expect weaker week margins also for the full year in the market?

Also, if you could little bit elaborate on the on the problems in the stock keeping units, what, what does it mean exactly and how it was solved or you know, a little bit more and also the increase in the net debt by some half billion crowns sequentially from the from the end of the of the last year.

If you if you can elaborate on that a little bit, what's, what's the reason for that?

Thank you.

Jan Drahota

So the, the quick answer to your to your question about margins in the US, when we described it already at the beginning of the call before at the end of Q3 of last year and Q4 and throughout till the end of Q1, we were more aggressive on pricing of some of products, CZ products on the US market and those actions expired.

So we expect the profitability on the US market to go to a more normal, normal stage stayed then it was.

So that's the first thing.

So we don't expect this to continue.

And in our guidance where we already said that in Q2, we expect the, the EBITDA margin to be about 20%.

So that's the first thing.

So US commercial market, we, I also said that we are introducing several new models and we wanted to make sure that we have the right fullness of, of channels.

That's the first thing.

Second thing, SKUs, I did comment on that.

There was several, it was, it was I think 2 models of, of coal terrible virus where they had technical problems in terms of a new models, which were they technical problems with some, some parts which the issues were resolved.

But obviously they couldn't sell those because they obviously our, our level of quality which we require from our product is something which we cannot compromise upon.

And that's why we didn't realize the sales, we didn't realize the margin, but the costs are there obviously.

And so the cover profit was lower because we were not generating the sales.

And, and it's also actually related to the increase of net debt because we were stuck.

We were also buying parts and inventory to, to deliver significant contracts which we will be delivering in Q2/Q3 for the Army.

So I would say on both parts of the Atlantic, yeah, I would say that's important to say.

Petr Bartek, Erste Bank

So just to make sure, so the, the increase in debt is mainly linked to MLE contracts which would be fulfilled in the second and third quarter, right.

Jan Drahota, CEO Colt

Yeah, No, I mean, we, we, we definitely, we definitely are producing, you know, because we, we have visibility of on some contracts.

So we are producing and buying parts in advance to be able to produce them.

And that's also has impact on inventory.

So if you don't move the inventory because you have technical issue, even though it's already, it's already resolved and then it's the first impact.

And then if you create inventory to be able to sell it, then it's second part.

So for us this year we have not, we have not specified as a KPI to you guys.

But for us this year we have quite aggressive targets on inventory or decrease because we believe that this year there are some significant contracts which we have been waiting for license or waiting for final approval.

Klára Šípová, Investor Relations

Ladies and gentlemen, if you would like to ask question, please share, raise your hand in Teams application.

The next question is coming from Komerční banka from Bob Trampota.

Bob, please go ahead.

Bob Trampota, Komerční banka

Morning.

Thank you for taking my questions.

First, I would like to ask, it seems like second quarter will be the best in your history.

If I understood correctly, the reasons are, let's say end of aggressive marketing campaign in the in the US and consolidation of S&B.

Is that correct?

Jan Drahota, CEO of Colt CZ

It will be best in history or close to best in history.

I think even organic basis, to give you a favor, CZ had the best months in history in April in terms of sales and profitability.

So that's important to say.

So yes, we expect very strong second quarter, just what I mentioned and it's not, I think that it's fair to show still organic and additive growth related to acquisition of S&B.

I would say the firearms business is doing so we will be showing that then you will understand that.

But once again, it will be a strong month and a strong quarter for firearms as well.

Because if I look at it as by the expect what we are saying that in the guidance we are saying that the EBITDA of the firearms business will be 1 billion plus.

That's what we are essentially saying.

For the Q2, which is a very strong quarter.

It might be the best or close to best without even including S&B.

Yes, maybe if you look at the guidance you published for first half of the year and you can easily deduct first second quarter for both companies.

Bob Trampota, Komerční banka

It seems also the Sellier & Bellot will grow substantially.

Why the margins will go up?

What's the reason?

Radek Musil, CEO of Sellier & Bellot

The main reason is that the volume will go up and because we are quite far away from break even point.

So we are making bigger margin, OK.

And also it includes the military contracts.

Military contracts has a good margin, OK.

Does it mean that your business is let's say subject to seasonal influences?

Is, is there any seasonality or is stable here?

If I comparing to CZ, I think we are more stable and ourselves we must, let's say some more stable.

It depends on the acceptance test because the old army, all the police are rushing to make the acceptance test.

We are waiting on that and we are waiting on transportation.

But we have the a lot of small tenders, not the big ones because you know the price of ammunition is much lower than guns.

So we're the it's more stable essence less seasonality than that's let's say 10 guns.

OK, maybe you guys will maybe add a little bit more for yeah, how we call seasonality because maybe we are misusing the term a bit.

It's pretty much the same Radek mentioned for ammunition.

We don't have actually the seasonality.

Everything is dependent on that on the contract signed and delivered basically where we see the only seasonality.

I mean, in a way we understand the seasonality.

We just whatever related to the to the business is a hunting yeah, because they have strong

hunting season basically all over the world or another part of the of the globe is autumn or autumn winter.

It means that the deliveries are at about summer, autumn.

But the rest is really dependent on a on a contract delivery.

So basically seasonality you could call the larger contracts, larger military contracts to have effects, which could be I mean, if you call them sees that they call them sees that.

But they definitely have effects on the development because when you deliver larger contract, it has huge impact when you will send profitability obviously.

But this this anyway can happen in in January as well as in October next year.

Yeah, it means again the cycle of the contract signature and deliveries.

Bob Trampota, Komerční banka

Maybe another question which relates to S&B, it was mentioned that you are at maximum production, where or what is the competition here?

Is there other any barriers to start the business in this sector?

Radek Musil

You, you know, we are acting in global markets so that the, the, everyone is competitive to us. So, you know, and it's the same like with the guns that the new small companies, some old ones are growing or somebody is dying. It's like the living, it's living environment.

Bob Trampota, Komerční banka

And maybe one more, maybe last one. Are you going to publish any operating data?

Klára Šípová, IR

We will not publish their results on the stand alone basis.

Bob Trampota, Komerční banka

OK, that was clear.

Thank you.

Klára Šípová, IR

Thank you very much, ladies and gentlemen. Yes, the next question is coming from Mr. Jan Raška from Fio Banka.

Fio Banka is still muted and so we are going for the second round. I see the question coming from Atinc Ozkan from Wood&Company.

Atinc Ozkan from Wood & Company

Now the first one is regarding the recent remark.

You just said there won't be any standalone disclosure for S&B. I guess that's financials.

Are you going to enrich your IR presentation content?

Are you going to add things like ammunition sales volume or any other KPS regarding your ammunition businesses, swissAA and S&B, is this the first one?

Maybe Jana can help here.

But we expect to have ammunition as a segment in our financials, correct, Jana?

Jana Matoušková, Group Head of Finance

Yes, exactly.

We will present a consolidated financial statement as a whole.

And part of this consolidated financial statement, there'll be also the part for segment ammunition.

In this ammunition there'll be everything that is connected with ammunition it means S&B and swissAA.

Atinc Ozkan from Wood & Company

OK, that's it very clear.

Thank you.

My second question is regarding the firearm business in US.

So this marketing initiatives that we have seen in the first quarter, have they continued in the second quarter?

And also if we look at the available NICs background check data, although it's not a perfect indicator, but indicator, but it's the best we have.

What I see is the adjusted data in the first quarter was still year on year down 4% and unadjusted one from FBI was down 17%.

So would you agree that we are looking into a more muted potential recovery in election year?

That's a question.

Thank you.

Jan Drahota, CEO Colt CZ

So the first answer is no.

So we it didn't continue those, those didn't continue those marketing initiatives.

So that's, first answer for first question for the market, honestly speaking, we are still relatively bullish on the market and we see strengths in the market.

You know, it's totally different market to how we look at it now to compare to compare to last year.

Yeah to the first quarter of last year obviously and we discussed that last time on our call.

We expect the market should be stronger maybe in the second-half with regards to that.

But this is not how our think thinking about, the sales. What I know is that would we know for sure that the back orders for season products grew substantially over last every six months and they grew substantially and, we see the market more optimistically than we saw it at the beginning, let's say a December period of last year.

And I cannot comment for those background checks because this is something which is which is definitely important, but it's for us once again, you know we are not the market, we are we are brought with small market share.

So, so it's our ambition to produce products which people want to have.

And so and we will be able to succeed at the final one.

Atinc Ozkan from Wood & Company

If I may, looking into your Capex breakdown, I see that the US business is taking more and more and I know and do remember that one of your key objectives was to start producing firearms, but also more vertical integration within code.

Correct me if I am wrong, but historically code was outsourcing the production of barrels.

That's the going to be my final question.

Thank you."

Jan Zajíc, CEO CZUB

To some extent, yes, Colt is I mean Colt is the historically the Colt business was very much it, it, it evolved to a assemble test and ship model.

Obviously it's changing now with us being in the together and we did some investments look at you cannot look at the capacity only to as investment to machinery and capacity, but it's also investment to product.

That's important to say here it depends on the product, which product the you are talking about.

So basically we are sticking through specifications by the customer and for our products.

We are thinking we are more fluid if I put it this way.

And actually it's important to say that Colt calendar has its own production of barrels, which is one of the best production of barrels.

Actually they are selling blanks to some of the competitors as well.

And so it's, it's also important to say.

So the, the resume is that Colt is now producing more than it used to.

And the question is for the future for products where it makes sense and it's possible.

Once again, you know, the, the disclaimer is the US SPAC, U.S. government contracts where it's more difficult.

We are thinking about whether to invest in the capacity there or whether to use the Czech Republic capacity or even some of the competencies which are available in Hungary.

Atinc Ozkan from Wood & Company

It's very clear.

Thank you very much.

Klára Šípová, IR

And the next question is coming for the second round from Peter Bartek from Erste Bank.

Peter, go ahead.

Petr Bartek, Erste Bank

Follow up question to this seasonality topic.

I think that in the past you were saying that the MLE segment is kind of seasonality with which is more weighted towards the end of the year, let's say to the fourth quarter.

Is that correct or was that only the timing of deliveries of what you were referring to in past?

Jan Drahota, CEO Colt CZ

I mean, you know, once again it's very much two things.

First of all, government customers.

It's true that they tend to spend money before year end.

But it will be maybe a stretch to call it seasonality.

Maybe we do, but maybe it's not, not right use of the English word.

The true phase that the government contracts tend to be not delivered by one and one piece, one piece, one piece, but the other always in in batches.

So that gives the senior storage, to the contract to the relationship, such contract with the customer.

And obviously and so if the contracts are geared towards your end, because this is how we scheduled our production or this is what we agree with the customer, that's something different.

But true seasonal, the government will decide to buy pistols at the end of the year end or buy rifles at the year end. It's it would be a bit of a stretch.

It's not so often, but if you win a contract and delivery is still in that year, then most probably it will happen in Q4Q3Q4 because you, if you win it in Q1Q2, you cannot deliver it immediately.

It's very rare that you can deliver immediately because you have to produce it.

But fiscal year is like it's from 1st of January to the 30th, 1st of December.

But that's I think the best answer to, to it.

You know, I think that maybe that I, I was just trying, to specify better than how we think about it.

Klára Šípová, IR

Ladies and gentlemen, if you have a follow up question, please raise your hand in Teams application or speak directly to the phone.

Do we have any follow up question from the analyst or potentially from the press?

I see there are no questions coming.

Thank you very much for the great presentation.

Thank you, Jan and Jan and Radik of course.

And Jana, this was a long, great call.

And if you have any follow up question which you cannot figure out right now, please send us an e-mail and we will come back to you internally.

Thank you very much.